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Exporter Guide

Annual

2001

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Report Highlights:

Opportunities exist for increased sales of U.S. high-value food products in Nigeria. U.S. exporters, however, need to overcome the negative images regarding this market which developed over the prior 15 years when the country was under military rule. A democratically-elected government that took over in May 1999 is providing a more positive business environment for U.S. exporters.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Lagos [NI1], NI

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SECTION I. MARKET OVERVIEW

- ' Nigeria has a population of more than 110 million that is growing at approximately 3% per annum. Nigeria offers U.S. exporters a bonus market of about 20 million consumers residing in neighboring countries. Excellent potential exists for the sale of U.S. high-value consumer food products.
- ' The value of retail food sales in Nigeria during calendar 2000 is estimated at about \$12 billion, consisting of:

Type of Food Product	%
Imported High-Value Food Products (HVP)	30
Partly processed and packaged in Nigeria	25
Totally processed in Nigeria	05
Locally-produced foodstuffs, including: fresh fruits and vegetables, meat, and fish	40
Total	100

- ' HVP sales grew 25 percent in 2000. Lower growth rates are anticipated for 2001 due mainly to the initiation of a 100 percent inspection regime at port of destination for all imports last May in addition to pre-shipment inspection already in place. The Government of Nigeria (GON) also imposed a penalty on all import shipments found to include items not declared or under-invoiced in their bill of lading. The penalty is equivalent to 50 percent of the value of the total duty payment. In the past, most importers of high-value food commodities reduced their duty payment costs by as much as 40 percent based upon customary duty avoidance practices. Importers now face the prospect of full duty payment plus the additional customs penalty. Hitherto, importers were encouraged by Nigeria's high tariff policies (import duties for processed foods run as high as 75 percent but average about 45 percent) to routinely practice tariff avoidance by under-invoicing shipments and bribery of customs and port officials.

The sale of imported HVP in Nigeria is likely to resume its upward trend due to:

- # A rapidly growing population.
- # The recent emergence of a democratically-elected government which is supporting economic reforms and an improved business environment.
- # A relatively large and growing expatriate community reflecting increased foreign investors in Nigeria.
- # The Nigerian consumer views U.S. food products as high-quality items.
- # Nigerian consumers readily adapt U.S. tastes and preferences for snacks and convenience-type foods.
- # An expectation that the local food processing sector will remain inefficient.
- # Uncertainty as to whether the GON will sustain its new inspection policy. Importers seek relief

either through the termination of the new clearance procedures or through new duty avoidance schemes. Nigeria's port congestion places an additional premium on smuggling activity along border points with neighboring countries. A recent survey of imported HVP entering illegally through the Nigeria's border with the Benin Republic found smuggling activities running at higher levels.

- ' The EU along with Asian suppliers dominate the imported HVP business in Nigeria. Although the U.S. share of the import market is growing, it remains low. Nigerian food importers often comment that they prefer buying from European and Asian suppliers because of their greater receptivity in meeting the special documentation needs of the Nigerian import community as well as the co-operation of Nigeria's pre-shipment inspection agents located in those regions.
- ' Opportunities exist for increased sales of U.S. food products in Nigeria, but U.S. exporters should express a heightened interest in this market. To a large extent, this means overcoming the negative imagery that Nigeria has developed during the years of military rule. As trade relationships with local importers develop, initial negative impressions and reservations about doing business here will diminish.
- ' U.S. exporters are urged to consult with FAS/Lagos before initiating business with potential importers to confirm that they are reliable and legitimate.

Advantages and Challenges:

Advantages**Challenges**

Nigeria's population of over 110 million is growing at an annual rate of 3%. Continued urbanization will increase the demand for imported HVP.	Average per capita income is estimated at \$300. The monthly minimum wage in Lagos is approximately \$65.
Increased minimum wage, economic reforms and relative political stability with the new democratic Government of Nigeria (GON).	U.S. food products are not readily available in Nigeria, are relatively unknown to local consumers and imports are not purchased with concessionary credit.
The Nigerian consumer views of U.S. food products as high-quality items and a generally fast changing lifestyle and consumption pattern along the western cultures.	Freight costs for U.S. products are significantly higher than those shipped by the EU and Asian countries.
Nigerian consumers readily adapt U.S. tastes and preferences for snacks and convenience-type foods.	Importers comment that U.S. exporters are not as responsive as EU and Asian competitors to importer requests regarding packaging and documentation.
Consumers increasingly view shopping in supermarkets and convenience stores as cleaner, more enjoyable, time saving.	Inadequate direct U.S. to West Africa shipping routes. Transshipments result in added cost and longer shipping periods. .
There is an increase in female employment and children attending schools. Middle-and high-income groups are being exposed to commercial advertising for imported foods through international broadcasting, print media and the Internet.	Dual customs clearing procedures requiring pre-shipment inspection and the newly introduced destination inspection take longer shipment and clearing time.
Domestic food processing is underdeveloped. Expectations are high that the local food processing sector will remain inefficient. Many imported HVPs do not have locally produced substitutes.	Many retail food outlets in Nigeria are family-owned and lack adequate capital for expansion and training.
Approval of local banks for the USDA's export credit programs.	A negative view of Nigerian businesses among U.S. exporters.
Inability of the GON to sustain the implementation of its new inspection policy as importers are seeking relief through new duty avoidance schemes.	Lack of freight consolidators in the U.S. to handle Nigerian importer ordering and shipping requirements.
U.S. grocery items entering Nigeria enjoy a bonus market of about 20 million from neighboring countries.	Import duties for processed foods run as high as 75 percent but average about 45 percent.

SECTION II. EXPORTER BUSINESS TIPS

- ' Importer preference is evident for HVP with the following characteristics:
 - # Relatively small-sized products, prepared and packaged for one-time use.
 - # Bulk products that can be re-packaged locally.
 - # Perishable food products processed and packaged for long shelf life without refrigeration.

- ' All imported HVP must be registered with the National Agency for Food and Drugs Administration and Control (NAFDAC) to be legally importable into Nigeria.
 - # NAFDAC is the GON regulatory body for food product manufacturing, importation, advertisement and distribution in Nigeria.
 - # An application for the registration of a regulated product shall be made by the manufacturer. Foreign manufacturers, must be represented in Nigeria by a duly registered company which can be easily contacted to effect a product recall if necessary.
 - # NAFDAC considers the local importer to be acting as a representative of the foreign manufacturer. In practice, it is the local representative that handles/coordinates the registration process for imported foods.
 - # Please see FAIRS report (Import Regulations) for details.

- ' The Nigerian Customs Service (NCS) is the GON agent for import duty collection.
 - # Import duty rates for HVPs run as high as 75 percent but average about 45 percent with many falling below 40 percent.
 - # All HVP imports are assessed at 5 percent Value Added Tax (VAT).
 - # The 5 percent VAT is on CIF value plus(+) import duty + port surcharge assessed at 7 percent of import duty + 1 percent of import duty(called Customs Service inspection charge).

- ' All HVP exported to Nigeria are subject to both Pre-Shipment Inspection (PSI) and Destination Inspection(DI) since May 2001.
 - # Goods are inspected in the country of origin and a report of inspection is issued prior to shipment.
 - # All countries are divided into four zones and each zone is assigned to one PSI agent appointed by the GON to handle PSI activities on its behalf. The United States belongs to Zone C which is assigned to Swede Control/Intertek. The shipper or exporter arranges for the PSI to be done.
 - # Encouraged by Nigeria's high tariff policies, importers routinely practice tariff avoidance by under-invoicing shipments and bribery of customs and port officials.
 - # Import duties for processed foods run as high as 75 percent but average about 45 percent. Due in part to pressure from domestic manufacturers claiming that goods were being dumped in the country and allegations of improper foreign exchange activities, GON ordered the initiation of a 100 percent inspection regime for all imports last May. It also imposed a penalty on all import shipments found to include items not declared or under-invoiced in their bill of lading. The penalty is equivalent to 50 percent of the total duty payment.
 - # Most importers of high-value food commodities still reduced their duty payment costs based upon customary duty avoidance practices. Reports from unofficial sources indicate that the GON has not been able to fully sustain the implementation of its new inspection policy as importers still practise duty avoidance schemes including under-invoicing and cross-border smuggling.
 - # Importers report that Swede Control/Intertek in the U.S. are not flexible and cooperating like other

Nigeria's PSI agents in other countries, including the Swede Control/Intertek PSI operations for the GON in other countries.

- # Importers therefore, oftentimes destine their U.S. consignments to Europe where Nigeria's PSI agents in the EU countries cooperates on importers' requests - mostly, under-invoicing before goods are finally shipped to Nigeria.
- # Nigerian borders are still very porous for smuggling activities. The new dual inspections and high tariff policies as well as the lack of modern inspection and cargo handling equipment at the Nigerian ports, further encourage importers to destine their goods to neighboring countries where they are easily transported by road to the Nigerian market.
- # Often, specialized firms (smugglers) operate to transport these food items into Nigeria without following Nigerian laws.
- # U.S. exporters are dependent to a large degree upon the abilities of the importers they are working with.
- # All efficient Nigerian importers are aware of 'how to make things happen', not necessarily the official rules, and are always able to move exporters' products into Nigeria.
- # A large proportion of HVP exported to other West African countries is destined for entry into Nigeria.
- # Nigerian importers may purchase these items directly from overseas suppliers or they may purchase from importers of neighboring countries.
- # Goods that are legally prohibited from entering Nigeria often are evident in the market.

Payment for Imports: The importer normally applies for his foreign exchange requirements from the Central Bank of Nigeria (CBN) by completing a 'Form M' document. The 'Form M' document requires importation details such as: value, volume, country of origin, etc.

- # The importer takes the 'Form M' to his bank which then bids on his behalf for the foreign exchange from the CBN. If the bid is successful, the bank opens a Letter of Credit for the importer.
- # Opening letters of credit in Nigeria is relatively expensive and can be a time consuming affair and is therefore, inconvenient to both Nigerian importers and their suppliers.
- # Most Nigerian importers therefore, prefer and utilize bank transfer method to pay their overseas suppliers; in which case they simply purchase foreign exchange through either the commercial and merchant banks or the informal channels which saves them the time and rigor associated with payments through the Form M.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

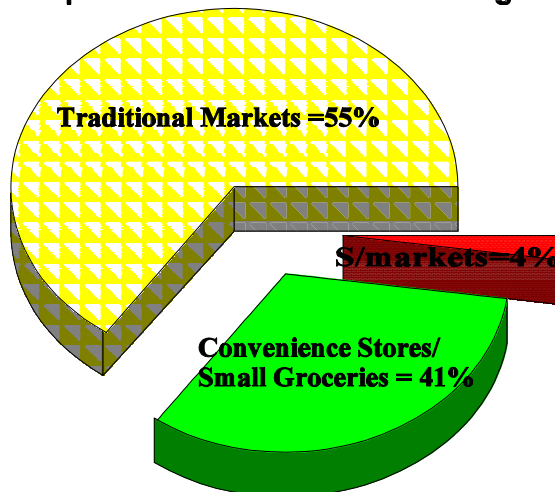
The retail food sector in Nigeria consists of large supermarkets, convenience stores/small groceries, and traditional open air markets. In 2000, these groups accounted for approximately 4 percent, 41 percent and 55 percent respectively, of total retail food sales.

Approximately, 19 percent of all retail sales of imported consumer-ready food products in Nigeria in 2000 were handled by supermarkets. Traditional markets merchandised approximately 43 percent (by value) of all imported consumer foods, while convenience stores accounted for the remaining 38 percent.

The major players in Nigeria for merchandising of imported HVP are:

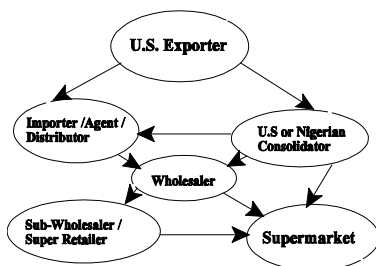
- # Importers
- # Agents/Sole Representatives
- # Consolidators
- # Wholesalers
- # Sub-Wholesalers/Super Retailers
- # Retailers

Composition of the Retail Sector in Nigeria

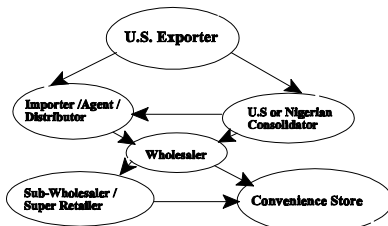


The following illustrates the inter-relationship of these players in merchandising imported HVP in Nigeria:

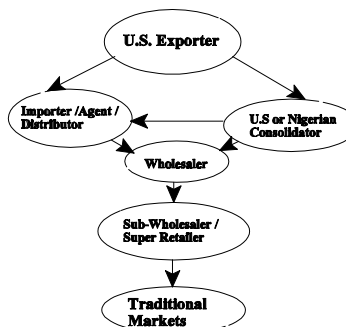
Distribution Flowchart for Supermarkets



Distribution Flowchart for Convenience Stores



Distribution Flowchart for Traditional Markets



Please see Post's Retail Sector Report for additio

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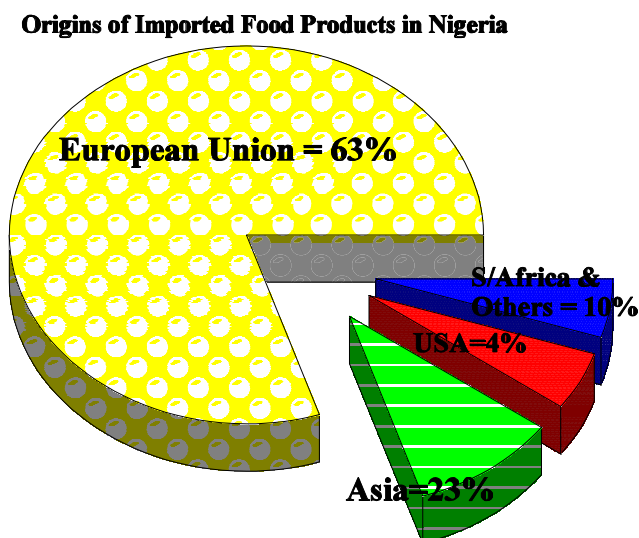
Hotels and food catering services represent a small but growing outlet for imported HVP. Sales potential in this area exists as the recently-elected democratic government brings forth an improved environment for business and tourism.

- # An increasing number of middle-aged Nigerians, especially educated professionals, prefer to meet their business contact at restaurants.
- # A small but growing number of restaurants offer food products and services demanded by these affluent consumers.
- # An increasing number of food caterers offering mobile service in homes, offices and at social gatherings.
- # Fast food establishments offer the greatest opportunity for sales growth.
- # Tourism is on the increase. The GON has, for the first time, recently created a Department of Tourism.
- # Hotels meeting international standards are very few and hotel management tends to be poor.
- # Abuja, Lagos and Port Harcourt are the ideal cities in Nigeria for focusing our sales efforts to the HRI sector.

Domestic food processing is under-developed in Nigeria.

- # Capacity utilization within this sector averages no more than 30%.
- # Decaying infrastructure and inappropriate economic policies have impeded the growth of domestic food processing.
- # Competition from imported HVP has tended to stifle growth in the domestic food processing industry.

Origin and supply of imported consumer-ready food products in 2000 are as follows:- EU(63%), Asia(23%), USA(4%) and South Africa & Others(10%).



The low U.S. market share is partly attributed to higher freight costs and to a tendency of U.S. exporters to be less responsive to Nigerian importer demands regarding documentation and product specifications.

Nigerian importers:

- # Seek exclusive distribution agreements from exporters.

- # Prefer more to purchase mixed containers.
- # Want to minimize shipping costs and, therefore, seek the services of freight consolidators in the U.S. to handle their ordering and shipment needs.
- # Anticipate that their foreign suppliers will meet their desire to under-invoice in order to reduce import duty payments.

New-to-market exporters should consider the following market entry strategies and tactics:

- # Contact the Agricultural Counselor, American Embassy, Lagos, Nigeria for assistance in selecting a local distributor/agent.
- # Appoint a local distributor/agent in Nigeria to register the products with the appropriate GON regulatory bodies, to introduce their products, and to develop consumer demand.
- # Identify and sell through consolidators based in the U.S. who are serving the West African region.
- # Exhibit, especially at the FMI supermarket trade show in Chicago, which is well attended by Nigerian importers and where follow-up contacts can be made.
- # Offer food product shipment in mixed-lot containers.
- # Offer flexible shipping volumes.
- # Support activities for in-store and point-of-sale promotions in numerous small-sized outlets.
- # Adopt a pricing strategy which encourages importers to initiate buying activity with U.S. suppliers.
- # Send sample products and sales catalogs to Post requesting assistance in finding local importer distributor for the product registration and marketing.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

frozen poultry & fish products (Aaa)	pastas products (Aa)	snack foods (Aaa)	breakfast cereals (Aaa)
alcoholic beverages (Aa)	fruit preparations and juices (Aaaa)	ice cream (Aaa)	non-alcoholic beverages (A)
canned vegetables (A)	liquid milk (Aa)	spices (Aa)	bakery and other food preparation ingredients (Aaa)
cooking oil (Aa)	beer (Aa)	candy (A)	powdered beverages (Aa)
tomato purees (A)	skimmed and whole milk powder (Aaa)	margarine (A)	wine (Aaa)

Aaaa = Highest Demand

Aaa = Higher Demand

Aa = High Demand
A = Demand

SECTION IV: POST CONTACT AND FURTHER INFORMATION:

Agricultural Affairs Office
American Consulate General
#2, Walter Carrington Crescent
Victoria Island, Lagos-Nigeria
Tel/Fax: 234 -1 - 261-3926
e-mail:- aglagos@fas.usda.gov

EXPORTER GUIDE

APPENDIX I. STATISTICS

TABLE A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%) ^{1/}	1,600/15
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%) ^{1/}	750 / 4
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%) ^{1/}	n/a
Total Population (Millions) / Annual Growth Rate (%)	110 / 3
Urban Population (Millions) / Annual Growth Rate (%)	65 / 3.1
Number of Major Metropolitan Areas ^{2/}	20
Size of the Middle Class (Millions) / Growth Rate (%) ^{3/}	5 / 2
Per Capita Gross Domestic Product (U.S. Dollars)	356
Unemployment Rate (%)	6.3
Per Capita Food Expenditures (U.S. Dollars)	246
Percent of Female Population Employed ^{4/}	n/a
Exchange Rate (US\$1 = 112 local currency) ^{5/}	112

Footnotes

1/ FAS' web-enabled UN Trade database.

2/ Population in excess of 1,000,000

3/ Middle class is the proportion of the population earning an average annual income of \$600 to \$2,000.

4/ Percent against total number of women (15 years old or above).

5/ Note, if necessary, any significant exchange rate movements since the previous year.

NOTE: This report does not include Tables B and C since the FAS web-enabled UN TRADE Database does not contain statistics for Nigeria.